

PRUDENTIAL INDICATORS 2005/06
SECTION D - CAPITAL FINANCE REPORT

1. In accordance with the CIPFA - Prudential Code for Capital Finance in Local Authorities and the Local Government Act 2003, the following indicators meet the requirement.
2. The actual capital expenditure that was incurred in 2003/04 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:-

Capital Expenditure					
	2003/04 £000 Actual	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate
Housing General Fund	497	350	350	350	350
Capacity Resources DSP	253	866	1,429	1,060	560
Community DSP	38	206	131	110	110
Economic and Cultural DSP	441	658	1,140	1,000	1,000
Environment DSP	167	1303	500	-	-
Total Other Services	1,396	3,383	3550	2,520	2,020
Housing Revenue Account	3,336	4,627	7,326	5,424	5,554
Total Capital Programme	4,732	8,010	10,876	7,944	7,574

3. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2003/04 are:-

Ratio of financing costs to net revenue stream					
	2003/04 Actual	2004/05 Estimate	2005/06 Estimate	2006/07 Estimate	2007/08 Estimate
Non-HRA	-1.62	-1.37	-1.19	-0.17	0.06
HRA	-0.56	-1.65	-1.81	-1.18	-0.77

The estimates of financial costs include current commitments and the proposals in this budget report.

4. Estimates of the end of year Capital Financing Requirement as at 31 March 2004 are:-

Capital Financing Requirement					
	31.03.04 £m actual	31.03.05 £m Estimate	31.03.06 £m Estimate	31.03.07 £m Estimate	31.03.08 £m Estimate
Non-HRA & HRA	8	6	5	5	5

5. The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, South Kesteven District Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. South Kesteven District Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the Capital Financing Requirement reflects the authority's underlying need to borrow for a capital purpose.
6. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:-

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next two financial years".

I report that the authority had no difficulty meeting this requirement in 2003/04, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

7. In respect of the authorities external debt, it is recommended the Council approves the following Authorised Limits for its total external debt gross of investments for the next three financial years, and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary. These limits separately identify borrowing from other long term liabilities such as finance leases. The Council is asked to approve these limits and to delegate authority to myself within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes will be reported to the Council at its next meeting following the change.

Authorised limit for external debt				
	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m
Borrowing	30	30	30	30

8. I report that these Authorised Limits are consistent with the authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. I confirm that they are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cashflow requirements for all purposes.
9. The Council is also asked to approve the following Operational Boundary for external debt for the same time period. The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects directly my estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within Authorised Limit, and equates to the maximum of external debt projected by this estimate. The Operational Boundary represents a key management tool for in year monitoring by myself. Within the Operational Boundary, figures for borrowing and other long term liabilities are separately identified, The Council is also asked to delegate authority to myself, within the total Operational Boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the Authorised Limited. Any such changes will be reported to the Council at its next meeting following the change.

Operational Boundary for external debt				
	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m
Borrowing	9	7	5	4

10. The Council's actual external debt as at 31 March 2004 was £9 million. It should be noted that actual external debt is not directly comparable to the Authorised Limit and Operational Boundary, since the actual external debt reflects the position at one point in time.
11. In taking its decisions on this budget report, the Council is asked to note that the Authorised Limited determined for 2005/2006 (see paragraph 7 above) will be statutory limit determined under section 3(1) of the Local Government Act 2003.
12. The Band D Council Tax that would result for South Kesteven District Council for 2005/06 from the totality of the capital and revenue plans recommended in this budget report is £100.80.

13. The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken by the Council are

(a) for the Band D Council Tax

<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>
£ -	£ -	£ -

(b) for average Housing Rents

<u>2005/06</u>	<u>2006/07</u>	<u>£2007/08</u>
£ -	£ -	£ -

14. In considering its programme for capital investment, the Council is required within the Prudential Code to have regard to:-

- Affordability, eg implications for Council Tax.
- Prudence and sustainability, eg implications for external borrowing.
- Value for money, eg option appraisal.
- Stewardship of assets, eg asset management planning.
- Service objectives, eg strategic planning for the authority.
- Practicality, eg achievability of the forward plan.

15. A key measure of affordability is the incremental impact on the Council Tax, and the Council could consider different options for its capital investment programme in relation to their different impact on the Council Tax.

16. South Kesteven District Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

17. It is recommended the Council sets an upper limit on its fixed interest rate exposures for 2005/06, 2006/07 and 2007/08 of 75% of its net outstanding principal sums.

18. It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2005/06, 2006/07 and 2007/08 of 25% of its net outstanding principal sums.

19. This means that I will manage fixed interest rate exposures within the range 70% to 80% and variable interest rate exposures within the range of 20% to 30%. This is a continuation of current practice.

20. It is recommended the Council sets upper and lower limits for the maturity structure of its borrowings as follows.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Limit
Under 12 months	11%
12 months and within 24 months	11%
24 months and within 5 years	33%
5 years and within 10 years	16%
10 years and above	28%

21. The Council has agreed a policy on the investment of sums for periods longer than 364 days.

